Internationalization of Indian Firms: Overseas Investment A Key Strategy

Dr. Anil Kumar Kanungo

Abstract

This paper analyzes the rapid expansion in outflows of foreign direct investment from India during the past decade. It examines the emerging patterns and economic implications of foreign direct investment in the context of evolving role of a developing country firm, i.e., emerging multinational enterprise as a key agent of economic globalization. It argues that Indiaôs restrictive policy regime has been a push factor in driving Indian firms to invest abroad. It hints at the facilitating role of state policy to encourage the outflow of foreign direct investment. It reiterates that the competitive advantage of Indian firms lies in its managerial and technical skills and explains that Indian companies would not have become international without such capacities or abilities. It concludes that overseas expansion and acquisition of Indian firms suffer from both positive and negative effects.

Keywords: Outbound Investment; EMNEs; India; Developing Countries

JEL Classification: F23; F14; O14

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I Introduction

Outward Foreign Direct Investment (OFDI) by Indian firms is currently being witnessed as a significant force in the globalization of Indian economy. Decade of 2000s has experienced a strong emergence of Indian investment abroad. Firms such as TATA, Birla, Mittal Steel, Reliance, Airtel, Sundaram fasteners and others are a part of this globalization drive. These Indian firms in their quest to go global and participate in an ever expansive global business activity have not only ventured into developing countries, but also into industrialized countries. However, this phenomenon is not new. From a historical perspective it is understood that many firms from developing countries have gone to the foreign shores in 1960s, 1970s and 1980s. In fact, the first overseas Indian venture was a textile mill set up in Ethiopia in 1956 by Birla group of companies (Lall 1986:13). Although this particular project remained abandoned for long years, the pace of Indian investment did not stop with that episode. Rather the spurt has been significant, so much so that the number of ventures including production and implementation had reached 133 in 1976 which further shot upto 228 in 1983 (Ministry of Commerce, Government of India, 1984). This phenomenon was widely captured by Sanjay Lall's work (*The New Multinationals: The Spread of Third World Enterprises*: 1983). Mid and late 1980s continued to register increase in India's foreign investments. In 1990 India had become a significant investor abroad by undertaking 229 approved projects (Kumar: 2007). This internationalization of Indian firms became a special feature of the Indian economy. Ample attention was drawn to this when India made a conscious decision in 1991 to open up its economy. India's tryst with economic reforms and liberalization further solidified this objective as outward investment policy was gradually and progressively liberalized. Presently, India's total approved OFDI is to the tune of US $16 billion in 2009 (Ministry of Finance, Government of India).

Emergence of these new investors in the sixties from developing countries came to be now recognized as Emerging Multinational Enterprises (EMNEs)[1] whose investments were largely concentrated in the developing countries till the late 1980s. During this period of 1980s these EMNEs were deeply rooted and involved with the industrialization process of other developing countries. They contributed to the developmental process of the developing countries (Wells: 1983) by providing appropriate technology and

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[1] Of late the more prominent emerging-market MNEs (hereafter referred to as EMNEs) included firms such as China's Huawei in telecommunications equipment, Mexico's Cemex in cement, Russia's Gazprom in energy, India's Tata Consultancy Services in information technology (IT) services, and Brazil's Embraer in regional jets.

executing other unique ‘third world’ characteristics of their planning and operations. They further participated in the delivery of resources and knowledge that were timely for those countries who wanted to outsource those services. Such contribution from the EMNEs strengthened the cause of the then fledgling South–South cooperation.[2] In the objective of emphasizing collective self-reliance at the South-South policy dialogues, host developing countries favoured EMNEs over MNEs of the developed countries. This exchange and transfer of knowledge and technology between developing countries is often cited in development policy circles as a prime example of South–South cooperation (Athukorala and Jayasuriya: 1988). Contribution of EMNEs to the host developing countries further broadened the acceptance of South-South initiative, taking it into a higher plane of launching Global South. Success of these EMNEs lies in the competitive advantages that they built during this period. Areas like managerial practices, technological know-how and familiarity of developing country surroundings became their core competence which they applied when operated in the developing countries.

Since early 1990s, there has been a significant change in the pattern and nature of international investments noticed from these EMNEs. This change in the pattern tend to demonstrate the growing economic significance of their home countries in world economy; reflect the importance and necessity of the universal embracing of market-oriented economic policies; and indicate the accompanying changes characterized by forces of world economy in goods and services. Current figures of EMNEs, their share in global outward FDI, sophistication of their activities have significantly increased. Many of them have gone beyond their familiar and traditional domain such as boundaries of developing countries to expand their business in the realm of the developed countries. Their positioning as successful enterprises of acquiring firm-specific assets, raising their sales volumes, maintaining time-delivery and building of brand values in the present business environment have put them at par with MNEs of the developed countries. EMNEs seem to be posing challenge to the MNEs drawn from the developed countries in terms of influencing the conduct of the global business and setting up an agenda for global business environment.

Against this background, this paper aims to analyze the long historical development of Indian investment abroad and demonstrate the policy shifts that have influenced the operations in the last two decades. It examines the role of Indian EMNEs in global business and the structural transformation that the home country has undergone. It delineates the factors that were responsible for pushing them to invest abroad. Finally, it provides an analysis to the nature and implications of their global operations and suggests how the entire process of outward investment has given rise to internationalization of Indian firms.

Structure of the paper is given as follows: Section II provides the historical setting and the policy changes in relation to outward FDI. Section III analyzes the trends and pattern of outward FDI from India. Section IV outlines the sectoral composition and geographical distribution of foreign direct investment outflows from India which attempts to show the similarities and dissimilarities with international investment from other developing countries. Section V examines the significance of Indian investment through

[2] In 1978, the United Nations established the Unit for South-South Cooperation to promote South-South trade and collaboration within its agencies.

mergers and acquisitions (M&A). Section VI discusses the factors responsible for spurt in Indian overseas investment. Section VII discusses the implications of outward FDI for the national economy. Section VIII provides some conclusive remarks.

II Historical Development and Policy Changes

Current wave of internationalization of Indian firms still draws upon the entrepreneurial talents and business/financial acumen that the old, illustrious business houses had executed and possessed before independence. This is reflected in the growth of business empires like Tatas and Birlas in the 1980s and 1990s (Tomlinson: 1993). Historical roots of entrepreneurial capabilities therefore still hold significance in the understanding of how a countryö́s internationalization process of domestic firms has shaped up. Earlier studies have also explained that development of most of the large business housesô entrepreneurial skills, abilities and technological competence were achieved over a period of time before Indiaö́s independence.

During the colonial period Indian business activities remained suppressed due to exploitative polices of the

British rule, however Indian industrial empire never vanished from the industrial activities of the pre-independent era. Though Indian businessmen found their industrial interests curtailed, they were eventually able to compete with the British Empire to grab a fair share of trading activities and be a dominant player in the private sector. Towards the turn of the century Jamshetji Tata had established Cotton Mill and expanded his business empire to include the iron and steel manufacturing. By the beginning of the first decade of 20th century the cotton textile industry was fairly established in Bombay and iron and steel manufacturing by the Tata Industrial group, the prominent industrial business house of the colonial India had begun its production. Steel production played a critical role in building Indiaö́s biggest public sector- the Indian Railways. Tata to a great extent have steered the industrial movement in pre-colonial era by opening up relevant institutions to harness the industrial growth. Technical institute in 1921 and the Indian-staffed Research and Control Laboratory in 1937 (Tomlinson 1993: 9) were pioneering institutions that were created by Tata to provide technical understanding and developing productive capacity. From 1920s to the independence the process of industrialization was dominated by a heterogeneous group of Indian entrepreneurs who belonged to different communities. These enterprises flourished under the British rule by exploiting business opportunities in the decline of firms in Calcutta. Onset of depression in 1930s created a new set of demand and supply to which these enterprises responded successfully. Beginning with traditional products like sugar and paper, they diversified into areas such as textile machinery (Birla), domestic airlines (Tata), shipping (Walchand Hirachand), and sewing machines (Shri Ram). The manufacturing industry grew at an annual rate of over 5 percent during the period 1900 to 1939 (Little 1982). In 1945, India was the tenth largest producer of manufactured goods in the world (Volume 3.3 The Economy of Modern India, 1860ï 1970 and Tomlinson 1993: 21).

In the run up to independence, Indian industrialist began to feel that the private sector will play a key role in accentuating the growth of Indian economy. The famous óBombay Planô was prepared by these premier industrial houses with the active support of independent nationalists to provide a blue print to the national economic reconstruction plan. What it intended to do is ñ to put forward as a basis of discussion, a statement in as concrete a form as possible, of the objectives to be kept in mind in economic planning in

India, the general lines on which development should proceed and the demands which planning is likely to make on the country's resources." (Lokanathan 1945: 681) The principal objectives of the plan were to achieve a balanced economy and to raise the standard of living of the masses of the population rapidly by doubling the present per capita income i.e. increasing it from US $ 22 to about US $ 45 within a period of 15 years from the time the plan goes into operation (Lokanathan 1945: 681). However these aspirations remained unfulfilled as the new leadership abandoned the idea and went in for institutionalizing state-led industrialization under the central planning (Panagriya 2008: 26). Soon after the independence the newly formed government was careful in allowing private sector to have a free ride in the national economic programme. A well-defined regulatory regime was created by passing the act known as Industrial Development and Regulation Act in 1951 to supervise the entire industry activities of modern India. Its broad role was to provide license and investigate any untoward industrial activity which was detrimental to public interest. The act set up provisions for the licensing of all existing and new industrial units or substantial expansions. It gave the central government powers to regulate private sector industry (Panagariya 2008: 35). As the government during this period focused on developmental plan and policies, the overriding aim of this developmental dimension was reflected in the successive five-year development plans that it initiated. Starting with the first plan launched in 1952, the government decided to adopt import substitution strategy in the context of a foreign trade regime that relied extensively on quantitative restrictions.

However, this policy regime noticed to be too restrictive in nature under Indira Gandhi Administration since 1966 (Patel: 2002). Industrial slowdown contributing approximately to 3 percent of GDP (Panagariya 2008: 48) became a worrying factor for the Government to take a fresh look at the policy. Old controls quickly returned with more restrictive and complex new regulations. They included extra regulations applicable to large enterprises through introduction of Monopolies and Restrictive Trade Practices (MRTP) Act in 1969. This act imposed strong measures to curb the economic power of top business houses.[3] During this period, the government policy toward overseas investment was formulated on the basis of the foreign exchange earning capacity of proposed ventures. As part of the highly restrictive foreign exchange monitoring process, every proposal had to be placed before an interministerial committee on joint venture for approval. Overseas investment was permitted only in minority-owned joint ventures, unless the foreign government and foreign party desired otherwise.

In the mid-seventies the Government initiated certain liberalization measures like progressive loosening of import controls and increase in subsidies to exporters of manufactured goods. Indian companies were permitted to raise foreign currency loans abroad and to grant loans to their foreign joint ventures with Indian parent companies. In some cases, direct cash remittances to joint ventures were also permitted.

The liberalization-cum-structural adjustment reforms initiated in 1991 marked a clear departure from the dirigiste economy. The reforms, encompassing industrial deregulation, trade liberalization, and relaxation of regulations governing FDI and foreign technology, subjected Indian industry to a major restructuring. Much of the emerging competitiveness

[3]Ghanshyam Das Birla likened the MRTP Act to ñDamoclesô sword permanently hanging on you threatening that government may take change of your creation if in their opinion you are not managing your jobò (Kudaisya 2003, 20).

of Indian firms in the world market can be traced back to this process. In particular, the capacity to compete with foreign firms and face import competition in the domestic market was instrumental in building Indian firmsô confidence to compete with foreign firms in world markets (Gopinath: 2007 and Nayyar: 2008).

The international policy context also changed. Most of the developing and transitional economies opened up their economies the same way that India did. If the old economic policy between India and other countries remained closed-closed, in 2000s it became open-open. During this period Uruguay Round of negotiations significantly reduced the ability of developing countries to adopt protectionist policies. It demanded to put in a place stronger intellectual property laws, while ensuring a strong dispute settlement mechanism to strictly abide by the commitments made by individual countries.

Liberalization of the policy on the Indian investment overseas was first undertaken in 1992 on the recommendations of the Kalyan Banerjee Committee which suggested an automatic window and case-by-case approval to be created.[4] The policy was further liberalized in December 1995 with enhancement of the limit for automatic approval, removal of restrictions on equity contribution through cash remittance and designating Reserve Bank of India (RBI) as the nodal agency for according all approvals. The policy has since then been further liberalized regularly. Indian corporate has been allowed to investment in entities abroad up to 200 percent of their net worth. The Report of Committee on Fuller Capital Account Convertibility has recommended that limit for a companyõs investment in overseas JVs/subsidiaries raised to 250 percent of net worth in 2006-07 and gradually up to 400 percent of net worth in overseas subsidiaries/ JVs by 2011. Further, RBIõs monetary policy has enhanced the ceiling on overseas investment by mutual funds, has provided greater opportunity to mutual funds to invest overseas, while also taking initiatives with a view to facilitating project exporters and exporters of services from India. These policy measures and recommendations reflect the increased importance accorded by the Government of India to create an enabling environment for the Indian companies in their globalization endeavours [UNCTAD, World Investment Report (WIR) 2007].

In a bid to give further impetus to overseas investments, the RBI has further liberalized overseas investment norms for both direct and portfolio investment with the following steps:

- Hiking the overseas investment limit from 300 per cent of the net worth to 400 per cent of the net worth in the energy and natural resources sectors such as oil, gas, coal and mineral ores
- Hiking the limit on overseas portfolio investment by the Indian companies from 35 per cent of their net worth to 50 per cent of their net worth
- Allowing the Indian residents to remit up to US$ 200,000 per financial year, from US$ 100,000 previously, for any current or capital account transaction or a combination of both
- Allowing mutual funds to make an aggregate investment to the tune of US$ 5 billion in overseas avenues, from an earlier cap of US$ 4 billion
- Allowing firms to finance their foreign acquisitions by borrowing from abroad

[4] Ministry of Finance, Government of India Website

- Exemption from the RBI to the Indian corporate from seeking prior permission of the Central Government for international competitive bidding (ICB) in foreign exchange
- Providing liberal access to Indian business for technology-sourcing or resource-seeking or market-seeking as strategic responses to the emerging global opportunities for trade in goods or services
- Encouraging the Indian industry to adopt a spirit of self-regulation and collective effort for improving the image of Indian industry abroad
- Registered Trusts and Societies engaged in manufacturing/educational sector have been allowed in June 2008 to make investment in the same sector(s) in a Joint Venture or Wholly Owned Subsidiary outside India, with the prior approval of the RBI
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III Outflows of Foreign Direct Investment from India to the World (Trends & Patterns)

The first wave of Indiaǿs overseas investment began by the Birla with the setting up of a textiles mill in Ethiopia in 1959. This became a motivating factor for other industrial houses to look for external investment as a key strategy for global expansion. Being the second largest industrial conglomerate after the Tata, the Birla expanded further into Africa by setting up an engineering unit in Kenya in 1960 (Kudaisya: 2003). Establishment of an assembly plant for sewing machines by the Shri Ram group at Ratmalana, Sri Lanka, in 1962 was another significant outward investment which had promoted South-South cooperation. Seventies witnessed more outward investment from India. Since then Indian multinationals were exploring opportunities in various parts of the world to provide much impetus to their trade and investment. Most of the foreign affiliates set up during seventies and eighties were small or medium scale ventures, clocking the total approved equity during the period 1975ï1990/1991 amounted to roughly $220 million (RBI: 2007).

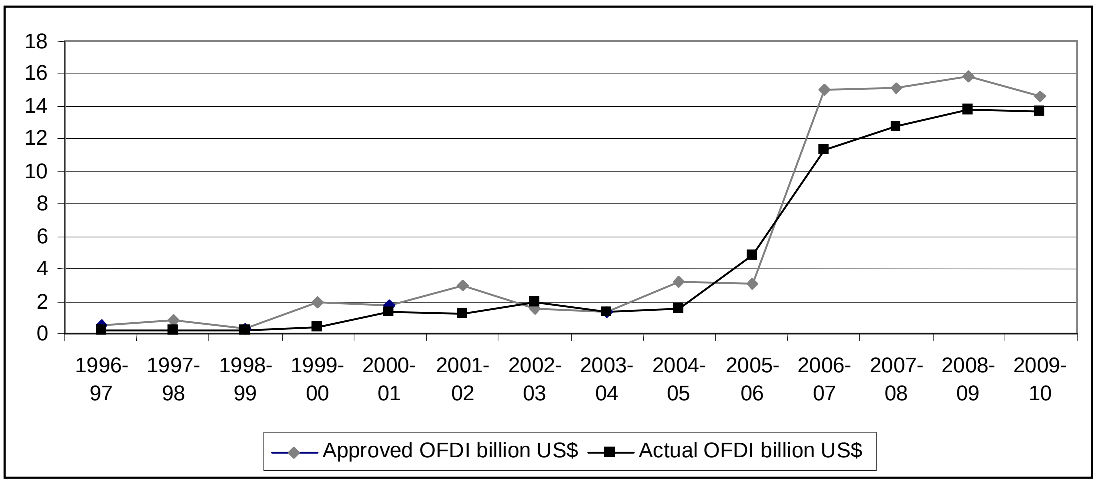
The second wave of overseas Indian venture started in a significant manner from 1995 onwards as foreign exchange restrictions on capital transfer for overseas acquisition were progressively eliminated (RBI Annual Report: 2000). Relaxation of the government policy has resulted in a surge of OFDI from India. The stock of OFDI from India increased rapidly from US$124 million in 1990 to US$1859 million in 2000 and US$ 9569million in 2005 (UNCTAD 2006: 305). The number of approved projects also shot up from 220 in 1990/1991 to 395 in 1999/2000 and to reach 1,595 in 2007/2008 (Kumar 2008). The share of India in the total stock of OFDI from developing countries rose from 0.08 percent in 1990 to 0.21 percent in 2000 and 0.75 percent in 2005.[5] It was a negligible proportion of Indiaǿs GDP in 1990; but this proportion rose from 0.4 percent in 2000 to 1.2 percent in 2005 (UNCTAD 2006: 315). Though Indiaǿs share in total developing economy FDI outflows remained below 0.5 percent throughout the 1990s, yet

[5] These percentages have been calculated as a proportion of the total outward stock for developing countries reported in UNCTAD (2006, p. 303).

increased continuously reaching nearly 6.0 percent in 2007(UNCTAD WIR: 2009). Though India remains a net FDI recipient, even then the gap between outflows and inflows was sharply narrowing over the past few years. In 1990, annual outflows, on average, amounted to 7 percent of inflows. This increased from about 30 percent to 60 percent between 2000ï 2005 and 2005ï 2007 (Athukorala 2009: 130). Indiaòs total FDI outflows (approved and actual) were to the tune of US$26 billion in 2007. The same went up to register almost US$ 29 billion in 2009 (Ministry of Finance, Government of India: 2009). 2006 onwards, India has emerged as an important investor in the world. However, 2010 has witnessed a marginal decline in outflows from India. Figure 1 below provides the approved and actual FDI outflows from India, showing a rising trend in Indiaòs FDI outflows.

Figure 1
Approved and Actual OFDI from India to the World

Figure1



Source: Ministry of Finance, Government of India

Indian corporates sector witnessed a favourable growth in their investment drive abroad. The year 2006 was a watershed in terms of mergers and acquisitions as Indian companies grabbed the opportunities around the globe. The total outbound deals, which were valued at $4.3 billion in 2005, crossed $15 billion-mark in 2006 and it could well breach the $ 35-billion level in 2007 suggested a study jointly conducted by Federation of Indian Chambers of Commerce and Industry (FICCI) and Ernst and Young. According to the RBIòs report published in July 2008, India's total outbound investments in joint ventures and wholly owned subsidiaries (WOS) abroad grew by 53.2 per cent in financial year 2008, at US$ 23.07 billion, as against US$ 15.06 billion in the previous fiscal. The overall number of proposals during financial year 2008 has totalled to 2,261, with a growth of 24.4 per cent over the 1,817 proposals registered, and 53.2 per cent in amount of investment over the previous year. Between April and December 2007 the RBI approved 1595 proposals for outward FDI amounting to US$ 18.44 billion. Almost half of the outward FDI (43%) between April and December 2007 was reported to have flown into manufacturing sector. The main recipients were Singapore (37%), the Netherlands

(26%) and the British Virgin Islands (9%), (Annual Report, 2008 RBI, India). An insight into the outbound investment trend of the developing economies including India can be gathered from the Table 1.

Table 1

FDI Outflows by Home Region and BRIC Economy 1980 - 2008 (US$ billions)

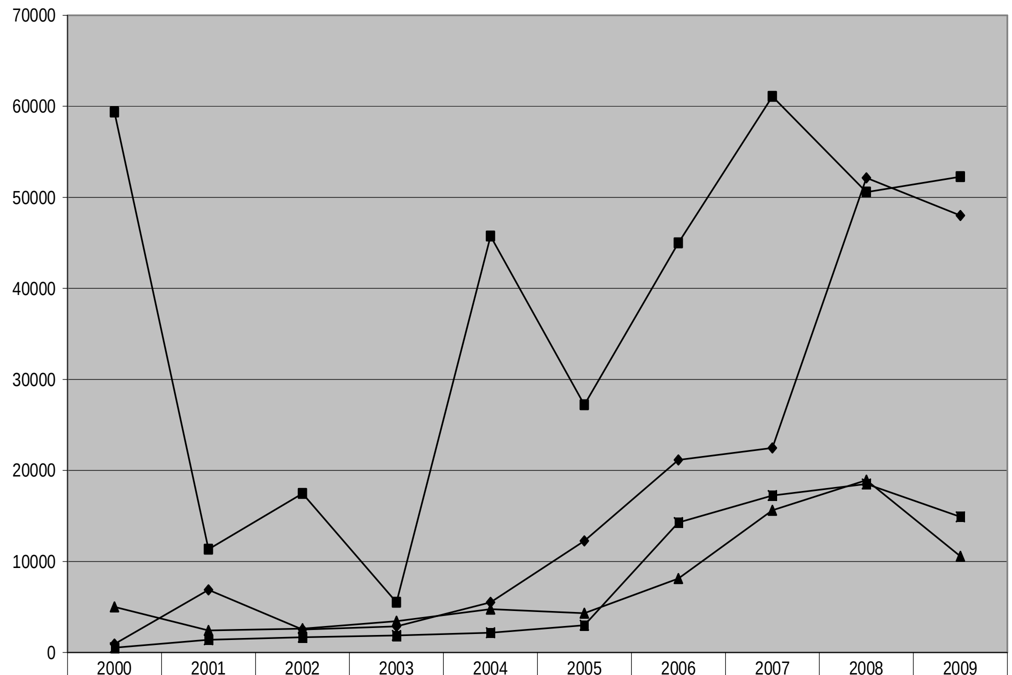
Region

	1980	1990	2000	2001	2002	2003	2004	2005	2006	2007	2008
World	51.5	239.1	1,231.6	751.3	537.4	562.8	920.2	880.8	1,396.9	2,146.5	1,857.7
Developed economies	48.4	227.2	1,093.7	665.7	483.2	507.0	786.0	748.9	1,157.9	1,809.5	1,506.5
Developing economies	3.2	11.9	134.8	82.9	49.6	45.0	120.0	117.6	215.3	285.5	292.7
Brazil	0.4	0.6	2.3	-2.3	2.5	0.2	9.8	2.5	28.2	7.1	20.5
China	..	0.8	0.9	6.9	2.5	2.9	5.5	12.3	21.2	22.5	51.2
India	0.0	0.0	0.5	1.4	1.7	1.9	2.2	3.0	14.3	17.3	17.7
Transition economies	..	0.0	3.2	2.7	4.6	10.7	14.1	14.3	23.7	51.5	58.5
Russian Federation	..	..	3.2	2.5	3.5	9.7	13.8	12.8	23.2	45.9	52.4

Source: UNCTAD, WIR 2009

It suggests that OFDI flows from Emerging Multinational Enterprises (EMNEs), that are firms from both developing and transition economies have demonstrated robust growth since 2003. They have garnered an amount of approximately US$ 351 billon in 2008 (US$ 293 billion from developing countries and US$ 58 billion from transition economies). India has shown particularly a rising trend in its OFDI flows since 2000 and has registered more than US$ 17 billion in 2008. Among its comparators such as Brazil, China, it registered more in 2007 than Brazil but secured less compared to China (Table 1). In 2004ï2005, India had surpassed South Africa and in 2006ï2007, it surpassed Mexico (UNCTAD WIR: 2009). The regional distribution of EMNEs has undergone significant change in the last couple of decades. Asia has overtaken the Latin America and Caribbean to become the dominant region of EMNEs engaged in OFDI.

Figure 2
FDI Outflows by Economies 2000-2009 (US$million)

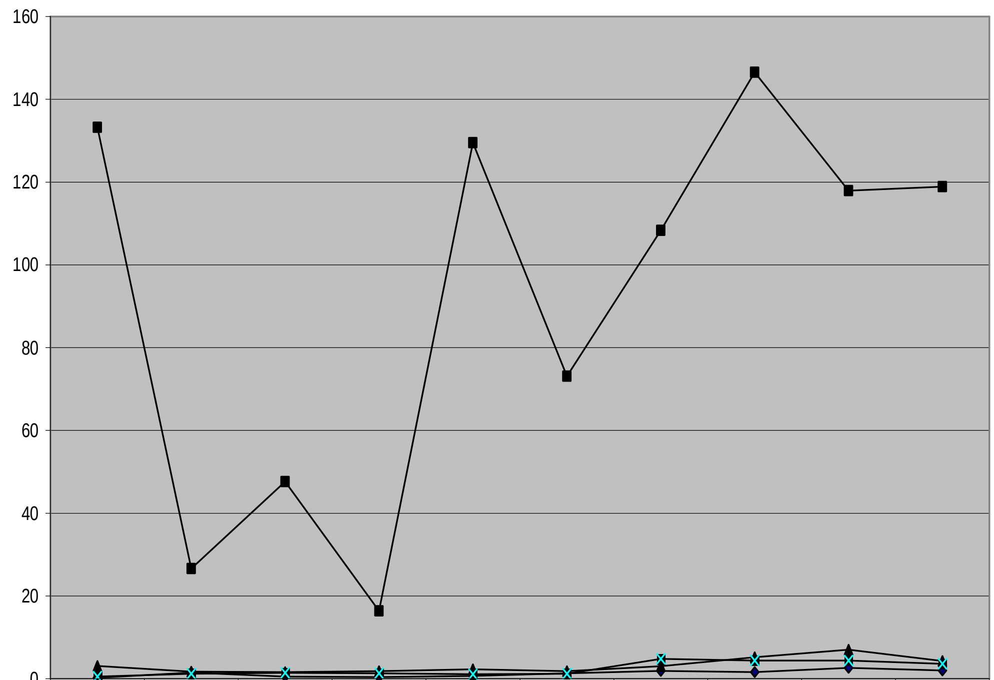


	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
China	916	6,885	2,518	2,855	5,498	12,261	21,160	22,469	52,150	48,000
Hong Kong, China	59,374	11,345	17,463	5,514	45,726	27,196	44,979	61,081	50,581	52,269
Korea, Republic of	4,999	2,420	2,617	3,426	4,759	4,298	8,127	15,620	18,943	10,572
India	514	1,397	1,678	1,876	2,175	2,985	14,285	17,233	18,499	14,897

Source: UNCTAD, WIR 2010

Figure 2 provides India's position vis-à-vis other East Asian economies like China, Hong Kong, South Korea, etc. in respect of FDI outflows. In 2000 India registered about US$ 0.5 billion compared to US$ 0.9 billion of China, US$ 5 billion of South Korea and US$ 59 billion of Hong Kong. India's surge has taken place from 2006 onwards and China's rapid outflows have begun from 2004 onwards. South Korea has witnessed a consistent rise in outflows, but experienced a decline in 2009. India has witnessed a decline in 2009 compared to 2008. Hong Kong also witnessed a substantial decline in 2008. By and large most of the developing economies have witnessed some amount of fluctuation in FDI outflows. Similarly Figure 3 below provides India's FDI outflows as a percentage of gross domestic capital formation (GDCF) vis-à-vis other East Asian economies. In terms of GDCF, outward FDI flows from India on average is larger compared to that from China. This difference widened sharply following the significant liberalization of the outward FDI regime in India during 2005-2006. In 2006, the contribution of outward FDI to GDCF in India was 4.8 percent which was more than twice as large as that of China (1.9 percent). India's contribution of FDI outflows to GDCF remained substantially high during 2007, 2008 and 2009 registering 4.4, 4.4 and 3.6 percent vis-à-vis China's 1.6, 2.6 and 2.0 percent respectively. Hong Kong was ahead touching more than 100 percent during these years.

Figure 3
FDI Outflows as a percentage of Gross Domestic Capital Formation 2000-2009



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
China	0.2	1.5	0.5	0.4	0.7	1.3	1.9	1.6	2.6	2
Hong Kong, China	133.2	26.6	47.6	16.4	129.5	73.1	108.3	146.5	117.9	118.9
Korea, Republic of	3.1	1.7	1.6	1.8	2.3	1.8	3	5.2	7	4.3
India	0.5	1.2	1.4	1.3	1.1	1.2	4.8	4.4	4.4	3.6

Source: UNCTAD, WIR 2010

Table 2 allows us to understand the significance Indiaôs holds in the world as a source country of foreign direct investment. In the 1990s compared to other four emerging economies like China, Brazil, South Africa and Mexico, Indiaôs share was the lowest among the developing countries. However in subsequent years its share has noticed faster growth than its other competitors. In 2004ï 2005, it surpassed that of South Africa and in 2006ï 2007, it surpassed that of Mexico. Its share in total world outflows has been quite miniscule during this period, but has noticed a rising trend in its share in developing economy outflows. It registered more than South Africa and Mexico in its share, but less than China in 2006-07. It can also be noticed from the Table 2 that developed economies held a high share in total world outflows almost six times that of developing economies.

Table 2
Foreign Direct Investment Outflows: India in a Global Context*

Economy/Economy Group	1994–1995	1999–2000	2004–2005	2006–2007
(a) $ billion				
World	324.7	1,159.9	900.5	1,659.8
Developed economies	273.0	1,055.4	767.4	1,389.7
Developing economies	51.3	101.7	118.8	232.7
South Africa	1.9	0.9	1.1	5.2
Mexico	0.4	1.1	5.5	7.0
Brazil	0.9	2.0	6.2	17.6
China, People's Rep. of	2.0	1.3	8.9	21.8
India	0.1	0.3	2.6	13.2
(b) Share in total world outflows (%)				
Developed economies	84.1	91.0	85.2	83.7
Developing economies	15.8	8.8	13.2	14.0
South Africa	0.6	0.1	0.1	0.3
Mexico	0.1	0.1	0.6	0.4
Brazil	0.3	0.2	0.7	1.1
China, People's Rep. of	0.6	0.1	1.0	1.3
India	0.11	0.21	0.3	0.8
(c) Share in developing economy outflows (%)				
South Africa	3.6	0.9	1.0	2.2
Mexico	0.8	1.1	4.6	3.0
Brazil	1.7	2.0	5.2	7.6
China, People's Rep. of	3.9	1.3	7.5	9.4
India	0.2	0.3	2.2	5.7
(d) Share in gross domestic capital formation (%)				
World	5.3	17.2	9.8	14.2
Developed economies	5.8	20.3	11.7	18.0
Developing economies	3.8	6.7	4.8	6.5
South Africa	6.7	3.6	2.7	5.4
Mexico	0.4	1.1	3.6	3.7
Brazil	0.7	1.9	5.5	3.6
China, People's Rep. of	0.9	0.4	1.0	1.7
India	0.1	0.3	1.2	4.4

* Two-year averages
Source: Compiled from UNCTAD, WIR Database

IV Geographical Distribution and Sectoral Composition of India's FDI Outflows

A typical characteristic of developing country emerging multinational has been its heavy concentration in developing countries in late 1960s, 1970s and early part of 1980s.

Geographical familiarity, colonial legacy, cultural linkages, similarity of institutions, need-based level of industrialization and a sense of cooperation have played a significant role in choosing developing country territory as an ideal destination for these emerging multinationals.. The locational advantages of neighbouring Asian countries have been a major factor in this overseas investment (IIFT: 1977). India's story is no different.

Indian investment geographically spanned West and East Africa, the Middle East and South and South East Asia (Lall 1986: 4). Whereas emerging multinationals from East Asia and Latin American countries were heavily concentrated in the neighbouring economies in the same region (Wells 1983, Diaz-Alejandro 1977, Cuervo-Cazurra 2008). Developing countries in Latin America & Caribbean and Southeast Europe and CIS largely due to geographical distance, language barriers and weak trade links failed to attract any Indian investment during this period (Agrawal: 1984).

It is also significant to state here that why firms from developing countries or from India did not venture into developed countries. It is argued that firms of developing countries did not have the experience of dealing with highly sophisticated, capital intensive, large scale technology efficient for production in developed countries. They were also not in a position to respond to any kind of threats to their markets in the developed countries. They were basically comfortable in the labour intensive and small scale technology which was appropriate to the factor costs and market size of other developing countries (Lecraw 1977: 446).

Since 1990s Indian investment abroad has witnessed a sharp rise. The past two decades of 1990s and 2000s have observed a rapid growth of operational networks of Indian multinationals in developed and developing countries. From the table 3 it can be observed that India's share of approved investment from its EMNEs in developed countries was around 36 per cent in 1995 which registered a significant rise during 2002-2006 reaching 53.8 per cent. This was possible because of the mammoth acquisition drive that Indian EMNEs went through during this period rather than the Greenfield investments. The year 2006 was a watershed in terms of mergers and acquisitions as Indian companies grabbed the opportunities around the globe (FICCI). The total outbound deals, which were valued at $4.3 billion in 2005, crossed $15 billion-mark in 2006 and it could well breach the $ 35-billion level in 2007 suggested a study jointly conducted by Federation of Indian Chambers of Commerce and Industry (FICCI) and Ernst and Young. Table 3 suggests that developed economies accounted for around 80 per cent of India's acquisitions during 2000-2006, a share that is much higher than the total in FDI (Kumar 2007: 6). Such aggressive Indian acquisition drive can be exemplary in a sense that being a low-income country in 2005 and 2006, it could garner more outward FDI than inward FDI, an outcome that contradicts the predictions of the investment development path (IDP) model (Dunning and Narula: 1996). Also, despite India's low per capita income (under US$1000 per person), two third of population living below poverty line and other social indicators at appalling stages, such outflows to the developed economies were contrary to the predictions of product cycle model (Vernon: 1966 and 1999). This South-North (developing–developed economies) FDI outflows sets a new trend[6] in the international business. That in an era of globalization and aggressive opening out of the business in the world economy, developing economies like India can have a huge share of overseas

[6] This trend is referred to *upmarket FDI* as the investment going from a less developing country to a more developed country (Ramamurti and Singh 2009).

investment in developed countries, even if the country is much below in the ranking of per capita income and social indicators.

Table-3
Geographical Distribution of Approved Outward Foreign Direct Investment by India (%)

	Up to 1990	1991–1995	1996–2002	2002–2006
Developing Economies	86.1	63.8	63.3	46.2
Southeast and East Asia	36.3	26.0	11.0	12.8
South Asia	9.4	8.1	2.6	0.9
Africa	17.0	8.6	11.5	13.5
West Asia	9.7	13.0	6.4	4.4
Central Africa	10.4	1.9	0.6	1.2
Central and Eastern Europe	3.0	5.1	27.3	9.3
Latin America and the Caribbean	0.3	1.1	4.0	3.9
Developed Economies	13.9	35.0	36.7	53.8
Western Europe	7.8	20.4	12.3	35.2
North America	6.1	15.1	24.2	14.1
Total	100	100	100	100
Total, $ million	222	734	6,403	11,587

Note: Data are on the basis of Indian financial year.
Source: Compiled from Kumar (2008)

The acquisition drive that took place geographically found to be in good numbers in the EU and the US. One third of this investment went to the US and two-thirds were in Europe, out of which more than half of acquisitions were in the UK. Mauritius, Hong Kong and British Virgin Island were the other important destinations for Indian acquisition (Ramamurti and Singh 2009: 122).

In 2006, six Indian companies compared to 20 companies of China figured in the Fortune Global 500 list. These included Bharat Petroleum, Hindustan Petroleum, Indian Oil Corporation, Oil and natural Gas Corporation, Reliance Industries and the State Bank of India (*Fortune*, 2006). These companies made to this list based on their worldwide sales, regardless of how much came from where. A remarkable feature of this six is that all except one belonged to the petroleum sector. All except Reliance Industries were state-owned. Some of them had made large investment but were less internationalized in terms of assets, sales or employees than many other smaller Indian companies. Many of the Chinese companies figured in this list were state-owned.

In another list provided by UNCTAD 2006 it was found that out of worldôs 100 largest transnational companies from developing countries, only one Indian firm ONGC (Oil and Natural Gas Corporation) figured in the list (UNCTAD 2006: 283-285). The list was dominated by Hong Kong, Singapore, Korea and China. 10 companies from China were in the List. Lists of fortune and UNCTAD give the indication that Indian companies are still not big enough to qualify in such rankings.

In another study it was observed that in the emerging world of multinationals, India has figured prominently by putting 21 companies among the top 100 of such multinationals rankings. Only China with 44 companies is ahead of India.[7] The BCG research has shown that 88 per cent of the emerging market global players are driven by the need to gain access to new markets and profit pools. Overseas markets are expected to bring higher margins, revenue and volumes, besides opportunities for further growth.

The EPW Research Foundation (2006) brought out a study where it expressed 26 firms from India had made it global and it was based on Indian companies making overseas acquisition abroad.[8]

Though Indian firms have displayed great enthusiasm in acquisition drive, overall investment from India has also witnessed an upbeat mood. According to the RBIôs report published in July 2008, India's total outbound investments in joint ventures and wholly owned subsidiaries (WOS) abroad grew by 53.2 per cent in financial year 2008, at US$ 23.07 billion, as against US$ 15.06 billion in the previous fiscal. The overall number of proposals during financial year 2008 has totalled to 2,261, with a growth of 24.4 per cent over the 1,817 proposals registered, and 53.2 per cent in amount of investment over the previous year.

Between April and December 2007 the RBI approved 1595 proposals for outward FDI amounting to US$ 18.44 billion. Almost half of the outward FDI (43%) between April and December 2007 was reported to have flown into manufacturing sector. The main recipients were Singapore (37%), the Netherlands (26%) and the British Virgin Islands (9%), (Annual Report, 2008 RBI, India). An insight into the outbound investment trend of the developing economies including India can be gathered from the Table 4. It suggests that OFDI flows from Emerging Multinational Enterprises (EMNEs), which are firms from both developing and transition economies, have demonstrated robust growth since 2003. They have garnered an amount of approximately US$ 351 billon in 2008 (US$ 293 billion from developing countries and US$ 58 billion from transition economies). India has shown particularly a rising trend in its OFDI flows since 2000 and has registered more than US$ 17 billion in 2008. The regional distribution of EMNEs has undergone significant change in the last couple of decades. Asia has overtaken the Latin American and Caribbean to become the dominant region of EMNEs engaged in OFDI.

Table- 4

FDI Outflows, by Home Region and BRIC Economy, 1980 - 2008 (US$ billions)

Region

	1980	1990	2000	2001	2002	2003	2004	2005	2006	2007	2008
World	51.5	239.1	1,231.6	751.3	537.4	562.8	920.2	880.8	1,396.9	2,146.5	1,857.7
Developed economies	48.4	227.2	1,093.7	665.7	483.2	507.0	786.0	748.9	1,157.9	1,809.5	1,506.5
Developing economies	3.2	11.9	134.8	82.9	49.6	45.0	120.0	117.6	215.3	285.5	292.7
Brazil	0.4	0.6	2.3	-2.3	2.5	0.2	9.8	2.5	28.2	7.1	20.5
China	..	0.8	0.9	6.9	2.5	2.9	5.5	12.3	21.2	22.5	51.2
India	0.0	0.0	0.5	1.4	1.7	1.9	2.2	3.0	14.3	17.3	17.7
Transition economies	..	0.0	3.2	2.7	4.6	10.7	14.1	14.3	23.7	51.5	58.5
Russian Federation	..	..	3.2	2.5	3.5	9.7	13.8	12.8	23.2	45.9	52.4

[7] In a report of Boston Consulting Group (BCG) available at http://www.bcg.com/publications/files/New_Global_Challeges_May06.pdf

[8] See more at www.epwrf.res.in/includefiles/THEMES%20LIST.HTM

Source: UNCTAD, WIR 2009

A close analysis at the composition of this investment developing countries suggest that economies have found their niche areas according to the advantage they hold in the sectors. In standard manufacturing products (such as automobiles, textiles, and chemicals), developing and transitional economies are the major hosts. Developed economies are important mostly for new dynamic product lines such as information technology (IT) support and related activities, whereas the competitive advantages of Indian companies are labour and managerial cost (Ramamurti and Singh: 2009). Indian MNEs that operate abroad in order to exploit their local technological advantages set up plants predominantly in developing economies. In contrast, firms built on domestic labour cost advantage and managerial talents target developed economies. These firms also invest in other emerging economies, not so much to serve these markets as to broaden the number of low-cost countries from which they can serve rich country markets.

Sectorally, Indian EMNEs have also exhibited a sense of enterprise and dynamism. Indiaḉs overseas investments have widened to capture various sectors of international business. Traditionally Indian firms have shown its forte in manufacturing sector to capture about 80 percent of its outward FDI since 1960s. Within the manufacturing sector, Indian emerging multinationals were diversified much more than its competitors in the developing countries (Wells: 1983). Prominent among them were textiles followed by engineering, chemicals, etc. They were able to hold huge share of their capital overseas. Whereas other developing countries like China, Korea, Singapore and Malaysia used their new locations as platforms for exports. India remained confined to its domestic boundaries as a support to its import substitution production.

In mid-2000s around 2004 and 2005 Indian firmsô overseas activities saw a major change in terms of its sectoral composition. From Table 5 it can be observed that during 2003-2004 the share of manufacturing in approved outward FDIs has sharply declined to register 52.8 per cent from 71.9 percent in 2002-2003. It then had stabilized in 2004-2005. However 2005-2006 onwards, it witnessed a progressive decline to reach 43.7 percent in 2007-2008. Services sector has witnessed a significant rise. Non-financial services recorded 65.1 percent in 1999-2000. This sector from 2002-2003 onwards experienced a decline till it saw a rise in 2006-2007 to notice 54.7 percent and again witness a declining trend to finally register 30.3 per cent in 2008 (Table 5). Unavailability of break up of manufacturing sector in approved outward FDI has shown some limitations in the analysis. The major areas of concentration within manufacturing are pharmaceuticals, automotive, consumer goods, chemicals, and fertilizer (FICCI: 2006). Non-financial services which have noticed a boom on and off include IT, software and business process outsourcing.

Table- 5
Approved Indian Outward Foreign Direct Investment by Broad Economic Category, 1999/2000–2007/2008 (%)

Category	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	1999–2008
Manufacturing	31.2	26.8	73.1	71.9	52.8	72.3	59.9	24.9	43.7	42.7
Financial services	0.2	1.2	1.6	0.1	2.4	0.3	5.9	0.2	0.2	0.7
Non-financial services	65.1	63.4	18.7	19.1	30.2	19.5	24.8	54.7	12.1	30.3
Trading	3.3	6.5	4.6	4.8	5.3	2.5	4.7	8.3	3.2	5.1
Other	0.1	2.1	2.0	4.2	9.2	5.4	4.7	12.0	40.7	21.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	1,767	1,406	3,051	1,464	1,430	2,781	2,866	15,053	22,480	52,299

Note: Data are on the basis of Indian financial year.
Source: Compiled from Reserve Bank of India, Annual Report (various years)

V Foreign Acquisitions by Indian EMNEs

The outward movement of Indian companies abroad has generated interest among media and academics at home. The aggressive posture adopted by the Indian companies to purchase companies in the developed countries in the recent past has equally surprised the industrialized countries. In an era of globalization buying and selling has emerged as one of the important modes international business. Current acquisition drive by Indian companies therefore assumes great significance.

Limited data and study pose constraints to a detailed analysis of this nature. UNCTAD (2008) provides statement of sales and purchases by Indian firms in the form of cross-border mergers and acquisitions. It explains sale and purchases of the Indian companies in the form of mergers and acquisitions abroad and says that the total sales during the period 2000 to 2008 was US $ 22991 million, whereas the total the purchases were of the order of US $ 56114 million during the same period.

The consistent rise in the value of OFDI in mergers and acquisitions by Indian companies gives an indication that Indian EMNEs are attaining the status of ǵglobal companies.ô Available evidence on mergers and acquisitions of Indian companies abroad narrates that more than 40 percent were in manufacturing sector (pharmaceuticals, automotive, consumer goods, chemicals, fertilizers, and metals). However, the 30 percent share of mergers and acquisitions has gone to sectors like IT, software and business process outsourcing (CMIE, 2007). A remarkable feature of the merger & acquisition strategy adopted by Indian companies during 2000s was that a significant number, i.e., more than 42 mergers and acquisitions took place only in the US, 19.52 per cent were in the UK and the Western Europe accounted for 52.19 per cent of the total acquisitions (Bertoni, Elia and Rabbiosi 2008: 10).

Table 6 below reveals about top 25 foreign acquisitions by Indian firms during 2000-2007. Out of this acquisition, six are by Tata Group and five belonged to the Indian public sector companies. Two of Tata acquisitions are in the UK and the US each and other two are in Singapore and Thailand. The biggest of the takeovers till date being the Tata Steel's $12.1 billion deal for Corus, the British steel company. "Tata has always been pretty solid in its business. This shows how they can weigh risks and does something that in the long term will be world class,ò says Mr. Kai Taraporevala, principal at the corporate funding firm *India Advisory Partners*. He pointed out that firms across the world have realized that need global alliances to remain competitive. Once combined, Tata and Corus would become the worldôs fifth-largest steelmaking firm. The size of the deal had inevitably drawn comparisons with Lakshmi Mittalôs acquisition of Arcelor, the worldôs largest steelmaker in terms of turnover. That deal, which took place in early 2007, was valued at $38 billion. When corporate lobby and academic researchers asked Mr. Ratan Tata, group chairman, the obvious question that the combined firm would look at competing with Mittal Steel, Mr. Tata was emphatic in his answer. ñI don't think our sights are set on trying to equal or better Lakshmi Mittal. I think our sights are set on strategic growth. Should there be a strategic opportunity, we would look at that, but it would not be just to gain a tonnage number.ò Gautam Thapar, chief executive of another leading industrial group of India, the Avantha group, which includes Crompton Greaves, an engineering firm, cites a similar motivation for some of the companyôs overseas acquisitions. It retains over a quarter of the Indian market for power transformers, which it defends against global rivals such as ABB. To hold on to that share in the long run, Mr Thapar argues, ñit has to compete on the basis of the technology it offers as well as the price it charges.ò

Such motivation established the idea that the pursuit of technology also played a key role in mobilizing Indian investment and acquisitions abroad. It has become a powerful motive for foreign acquisitions. Before Tata Steelôs purchase of Corus, the Indian steelmaker did not hold a single American patent. The takeover bought it over 80, as well as almost 1,000 research staff (*The Economist*, May 28 2009). As Indian companies are often seeking know-how and technology, they treat their new acquisitions with greater respect and forbearance. Indian MNEs are careful not to break what they have just bought.

India then was significantly speeding at foreign acquisitions. Five foreign acquisitions of India public sector belonged to ONGC and VSNL ltd. ONGC Videsh acquired in developing countries whereas VSNL did in the US. The sectoral distribution of top 25 foreign acquisitions by Indian companies shows that the largest number of foreign acquisitions, that is, five belongs to the consumer goods sector, followed by steel and petroleum (four each), pharmaceutical and information technology (three each), telecommunication (two), and each one foreign acquisition in the sectors such as aluminum, medical equipment, energy and paper. The dimension of ownership in Table 6 also provided added information where it suggests 100 percent ownership were reported in twelve foreign acquisitions, followed by 97 percent to 50 percent in four foreign acquisitions, and one each foreign acquisition has ownership control of 30 percent and 25 per cent, which were the minority joint ventures.

Table-6

Top 25 Foreign Acquisitions by Indian Firms: 2000-2007

Rank	Value (US $ million)	Year	Indian Firm	Target Firm	Country	Industry	Ownership (percent)
1	12100	2007	Tata Steel	Corus Steel	U.K.	Steel	100
2	6000	2007	Hindalco	Novelis	U.S.A.	Aluminium	100
3	1400	2006	O.N.G.C. Videsh	Petrobras	Brazil	Petroleum	
4	766.1	2002	O.N.G.C. Videsh	Greater Nile Oil Project	Sudan	Petroleum	25
5	677	2006	Tata Tea and Tata Sons	Glaceau	U.S.A.	Health Drinks	30
6	600	2004	O.N.G.C. Videsh	Greater Plutonio Project	Angola	Petroleum	50
7	600	2005	Opto Circuits India Ltd.	Eurocor GmbH	Germany	Medical Equipments	
8	570	2006	Dr. Reddyôs	Betapharm Arzneimittel GmbH	Germany	Pharmaceuticals and Healthcare	100
9	565	2006	Suzlon Energy	Hansen Transmissions	Belgium	Energy	100
10	522	2006	Kraft Foods Ltd.	United Biscuits	U.K.	Food & Beverages	
11	431.2	2000	Tata Tea	Tetley Group	U.K.	Food & Beverages	100
12	324	2006	Ranbaxy Laboratories Ltd.	TerapiaSA	Romania	Pharmaceutical and Healthcare	97
13	323	2000	O.N.G.C. Videsh	Sakhalin-I PSA Project	Russia	Petroleum	100
14	300	2005	Ispat Industries Ltd.	Finmetal Holdings	Bulgaria	Steel	
15	289.2	2005	Videocon International	Thomson SA (CRT business)	Europe, China	Consumer Goods	100
16	283.7	2004	Tata Steel	Nat Steel Asia Pte.	Singapore	Steel	100
17	254.3	2005	V.S.N.L Ltd.	Teleglobe International Holdings Ltd.	U.S.A.	Telecom	100
18	234.7	2005	Matrix Laboratories	Docpharma NV	Belgium	Pharmaceuticals and Healthcare	95.5
19	220.0	2006	Tata Coffee	EightoôClock Coffee Co.	USA	Food & Beverages	100
20	210	2006	Sasken Communication Tech Ltd.	Bornia Hightec	Finland	Information Technology	
21	209	2006	Ballarpur Industries Ltd.	Sabah Forest Industries	Malyasia	Pulp and Paper	77.8
22	191.2	2003	Reliance Infocomm	Flag Telecom	U.S.A.	Telecom	100
23	185	2006	Seagate Tech Ltd	.Evault Inc.	U.S.A.	Information	
24	184.6	2001	Citrix Software India Pvt Ltd.	Sequoia Software	U.S.A.	Information Technology	
25	175	2005	Tata Steel Ltd.	Millenium Steel Plc.	Thailand	Steel	100

Source: CMIE (2007), FICCI (2006) and Newspaper Reports.
Notes: CMIE (2007) provides data on acquisitions from January 2001 to December 2006; FICCI (2006) provides data on acquisitions from January 2000 to July 2006.

VI Factors Responsible for Overseas Investment

There is a surfeit of literature available in the field of international business which establishes various determinants of outward foreign direct investment. These literature mainly focus on the outflow of FDI from the developed countries. They suggest that overseas foreign direct investments (OFDI) from the developed countries provide competitive advantage to these firms as they ensure higher returns to compensate greater risks. When a firm operates in another country, it tends to incur a set of costs especially in the form of lack of unfamiliarity with the foreign soil and lack of information about that market, which are not encountered by the local firms. To offset such disadvantages (liability of foreignness), a successful firm should usually have a set of assets or skills (proprietary assets) to gain a competitive advantage over local firms. Proprietary assets are of two types, i.e., firm-specific advantages and country-specific advantages (Rugman and Doh 2008, Dunning 2000).

Firm-specific advantages are unique in nature. Their operational capabilities are proprietary of that firm only. They are fundamental to an organization and may be built on product or process technology, marketing or distribution skills, or managerial know-how. Country-specific advantages are factors intrinsic to the business in each home country. They can be based on natural resource endowment, on the labour force, or on size and purchasing power of the people. Sometimes country specific advantages also include factors like education and skills, entrepreneurial dynamism, institutional protection of intellectual property. Mangers of most MNEs rely on a mix of country and firm-specific advantages so their firms can be in a unique strategic position in a given host country (Athukorala 2009: 144).

In essence, it is argued that such competitive advantages of MNEs mostly centred around three factors, i.e., ownership, location and internationalization (Dunning 2000: 168). The ownership advantage is built up by the firms through newer or better technology, management practices and established brand names. This reputation plays a key role in winning the confidence of recipient countries. Secondly, the locational advantages are important as it provides a headstart to the firms as they attribute to a host of factors such as geographical proximity, less expense on trade facilitation, market opportunities, cheaper inputs and trade barriers in host countries. Thirdly, the dimension of internationalization of the firms was initially geared up to capture the ownership or expansion of venture. The international quest of firms reflects a decision to source raw materials, inputs or capture markets through ownership or control rather than trade.

However looking at the analysis of the literature, it is suggested that internationalization of firms of the developed countries through investments, mergers or acquisition was primarily driven by goal of overseas expansion. MNEs of the developed countries were charged by the monopolistic or oligopolistic power of their firms to invest abroad. However, such an approach may not be totally appropriate in the context of EMNEs from the developing countries to establish internationalization of developing firms that in recent years have ventured to invest abroad to secure the competitive advantage that they do not have. Therefore, the standard proprietary asset models explained above that were developed to explain the global reach of these firms offer little help in understanding the competitive advantages of EMNEs, which have failed to pass through an evolutionary process in their home countries. Lately the overseas investment drive from many East Asian countries adequately supports this explanation. This approach is currently pursued by many EMNEs to develop linkages with the world market in order to leverage strategic resources that in turn promote learning within the firm. This would mean firms from developing countries may use outward foreign direct investment not as a means of exploiting existing competitive advantage, but as a means of realizing and augmenting potential competitive advantage (Nayyar 2008: 120).

It is also argued that the internationalization activity of firms from developing countries may reflect attempts to acquire strategic assets, such as new technologies and brands, and to secure access to raw materials and distribution networks. In sum, rather than exploiting existing assets, FDI may reflect attempts to acquire or augment these assets. In principle, technological assets can be acquired through arms length contracts such as licensing, or generated through domestic R&D, but market imperfections may imply that acquisition is more effective through FDI. Child and Rodrigues (2008) argue that Chinese firms have internationalized not so much to exploit competitive advantages, but to address the competitive disadvantages incurred by operating in exclusively domestic markets.

Inability to locate the particular trends in EMNEs in their overseas investment propelled experts and pioneers of the literature on EMNEs to ponder over an eclectic approach to examine the expanding operation of these firms. This approach essentially relied on an analysis of firm behavior in the specific business environments in developing countries (Lecraw 1977, Wells 1983, Lall 1983). The consensus view was that the competitive edge lies in country-specific advantages or advantages moulded by the experience of their home countries. These advantages are the ability to adapt technology to suit relative factor prices in developing countries and the small size of their markets (ñtechnological comparative advantage,ò à la Diaz-Alejandro 1977); the ability to adapt original designs to local conditions such as non-availability or prohibitive costs of raw materials, peculiarities of local consumers, the climate and geography, and small markets. It can also complement entrepreneurial adaptation to developing country conditions; and provide domestic skilled labour to design and operate projects abroad at low cost, and can even lower the costs of technical personnel and management. Busjeet (1980) and Chen (1981) found the prospect of lower factor costs is a powerful driving force for firms from Hong Kong. This hypothesis, however, fails to account for the aggressive pace of FDI by firms from many other developing countries. Lecraw (1981) finds limited evidence to suggest that firms with subsidiaries in South-East Asia invested overseas as a part of risk-diversification strategy. White (1981) detects a similar tendency in the case of foreign investment from the Latin American firms. In another significant study, Khanna and Palepu (2006: 67) have indicated that the emerging multinational firms of developing countries possess distinct advantage to deal with institutional voids which can be used to counter the foreign multinational firms both in the local economies and can be extended to international markets. Aulakh (2007) has argued that the óemerging economy multinationalsô exploit the existing ownership advantage to pursue the acquisition of complementary resources and capabilities required to develop potential competitive advantage for survival in more competitive environments.

However the evidences available on Indian firms are not quite conclusive in nature. In a path-breaking study Lall (1986: 24) had found that the competitive advantage of Indian firms in their foreign operations was not based on the technology embodied in Indian machinery. Rather it is the availability of a highly skilled pool of Indian managers and technicians to be the most important source of competitive advantage (Lall 1986:25).

These managers and technicians were preferred over their counterparts in developed countries because they were found as competent as them and proved less expensive. Second Indian managers and technicians had an edge because of their less developed countries experience over their competitors in less developed host countries. There are examples to suggest that Indian management had succeeded where teams from developed countries failed. A team from West Germany could not get a textile plant set up by themselves in Kenya to become operational, whereas Indian management team could allow it to run in profit (Lall 1986: 25).

In another major study with selected firms having their overseas operations it was observed that there is no straightjacket reference to these companiesô monopolistic advantages which are the determinants of these overseas ventures (Ramamurti and Singh 2009: 158). Source of competitive advantage in case of Indian EMNEs vary from firm to firm. Technological innovation and cost factor play a crucial role in determining their advantage. There has been a marked increase in the FDI outflows from India in 2000 onwards as more freedom has been provided to the firms in the wake of reforms programme. Within this complex international business environment, it was found that country-specific advantagesð in particular products and processes adapted to suit the particular Indian context. The availability of low-cost production and design capabilities, process excellence and restructuring capabilities provided extra mileage to Indian EMNEs as major sources of competitive advantages.

Emerging market firms from India in the new century faced international opportunities and constraints which were different from those faced in the 1970s and 1980s. They were also significantly different from those faced by Korean or Japanese firms when they had undergone the process of internationalization decades earlier. For example, the role of the government was quite different in contemporary India than in Japan or Korea. Indian government remained more of a facilitator, and the process of internationalization of Indian firms was significantly propelled by the private sector. Less intervention of bureaucracy and government has accelerated the process overseas investment. The domestic and international regulatory environment was also quite different in 2000s. Indian firms had to design their internationalization strategy in tune with the times. Historically, no straightjacket or role model strategy existed for Indian companies to emulate.[9]

However, sketchy evidences from the mainstream literature hardly provide any clear trend in determinants of Indiaøs overseas expansion. In this context, it may be necessary to examine the underlying factor responsible for Indiaøs overseas investment. The internationalization of firms from developing countries is driven by a wide range of factors such as market access for exports, horizontal or vertical integration, delivery of services, access to technology, sourcing raw materials, capturing international brand names, global leadership aspirations and restrictive policies of the Indian Government. [Caves: 1982, Dunning: 1993 and UNCTAD: 1998). India is no different. These underlying factors adequately support this view in the spurt of acquisitions abroad by Indian firms (FICCI: 2006).

[9] Though Indian firms viewed the Western MNEs, or the Korean or the Japanese firms or even present Chinese firms as models of internationalization strategy.

Market Access

By undertaking overseas acquisition transactions, the Indian firms are getting an access to the regulated market of developed and developing countries. A good example is pharmaceutical industry, where the Indian corporates equipped with the USFDA approved facilities are looking for acquisition in the regulated market for ease of registration processes. The manufacturing activities will still be in India entailing low cost advantage. Dr Reddy's Laboratories has been a pioneer in this acquisition drive acquiring Betapharm in Germany and Bharat Forge acquiring Federal Forge in the USA.

Horizontal or Vertical Integration

Horizontal, in part vertical, integration was particularly noticeable in the steel sector, as also in the chemicals sector. The striking examples are Tata Steel's acquisitions of Corus Steel in the UK, NatSteel in Singapore and Millennium Steel in Thailand. In addition, the acquisition of Berger International in Singapore by Asian Paints and Dunlop Tyres in South Africa by Apollo Tyres are also examples of horizontal expansion across borders.

Delivery of Services

The growth of this delivery of services immensely happened in the IT sector. Business process outsourcing and computer software provided the push factor for the Indian companies to acquire firms in this domain. Initial advantage in delivery of IT products and services catapulted reputation of India firms abroad.

Access to Technology

Indian companies interested to produce value added products and diversify their product basket require certain improvised technology which is not available to them. This can be obtained by acquiring firms abroad which would provide them market expansion as well as the technology to produce value added products at a lower cost. For instance, Tata Motors Ltd acquired Daewoo Commercial Vehicle Company (Republic of Korea) in 2003 for $118 million for accessing the South east Asian market and the Korean firm's production facilities. Infosys Technologies Ltd. acquired Expert Information Services Pty. Ltd (Australia) in 2003 for $22.9 million to strengthen its presence in the Australian market and to access clients of the acquired company. Similarly, companies such as Daksh eServices[10], Datamatics Technologies and Hinduja TMT Ltd have been going abroad to expand the markets for their services and exploit growth opportunities in other regions. Ranbaxy Technologies acquired RPG Aventis (France) in 2003 for $70 million to strengthen its market position in Europe and to access strategic assets (e.g. brand names). Access to technology is also particularly important in energy and telecommunications, semiconductors and seed-technologies. The acquisitions of Hansen Transmissions in Belgium by Suzlon Energy, Flag Telecom in the USA by Reliance Infocomm, New Logic in Austria by WIPRO and of Adventa in the Netherlands by United Phosphorus are prime examples. Access to technology was probably an important underlying factor even in the steel, pharmaceuticals and chemicals sectors.

Securing Natural Resources and Raw Material

Continuous business activities of the Indian firms require sustainable supply of raw material to produce, hence they look for outside resources. Similarly securing natural

[10] Daksh company's press release, "Daksh services announces launch of facility in Philippines", 7 January 2004 (http://www.dask.com/pr-7jan04.htm).

resources is an important factor for the growth of the companies. For instance, in 2003 Hindalco acquired two copper mines in Australia and Oil and Natural Gas Commission (ONGC) Ltd, a state-owned company, bought a 25 per cent stake in a Sudan oil field from Talisman Energy (Canada) for $720 million to secure the supply of resources. ONGC acquired a 20 per cent stake in Sakhalin oil and gas field in the Russian Federation in 2001 for $1.7 billion and in 2002 it bought a 20 per cent stake in a gas field in Myanmar (UNCTAD, 2004). There were a large number of small acquisitions in copper, coal, coke and iron ore, mostly in Australia, which covers this dimension.

New Product Mix

Indian companies are also going abroad to obtain a new product mix or to acquire products that will otherwise require huge investments and a long time to manufacture indigenously. As world market is integrating, such demands are quite often experienced.

Image or Brand name

Indian firms operating in the global arena tend to acquire an international image and vision. It promotes their brand equity. Acquisition process enhances their ownership and financial capability, which plays a crucial role in the decision making. Global leadership aspirations of Indian firms are also a contributing factor to this acquisition process abroad. These are firm-specific rather than sector-specific. It is also possible that large diversified firms seek to capture global leadership in product categories or in niche areas. Firms like Suzlon Energy, Tata Tea, United Phosphorus, Bharat Forge, Asian Paints and most recently Tata Steel are creating a global footprint.

Restrictive Policies

The lack of incentives for exports had adversely affected the growth expansion of the Indian firms. The constraining effects of the government policies before the liberalization did not allow the firms to form strategies that would allow them to register higher business for them. MRTP Act also prompted these business houses to look for external territory as an escape route for their expansion and diversification. The prime historical example of the pioneering Birla Group provides ample evidence of this proposition that the constraining effects of government policy was a major domestic push factor in overseas expansion (Merchant 1977, Kudaisya 2003). The Birla Group made its major expansion drive in the late 1950s when they anticipated more restriction on control and exchange unfolding in the business horizon. The companyôs rapid expansion began in the 1969 when the Indian Government was inching towards restriction of the growth of ñmonopoly houses.ò It established India-Thai Synthetic Limited in Thailand and established joint ventures in textiles in Philippines and went to expand its operations in Malaysia and Indonesia. All these countries provided a favourable climate for trade and investment as they were in the process of opening out to the outside world. This was in sharp contrast to Indiaôs business environment.

VII Economic Implications

Pro-reforms era and progressive liberalization in India has brought about a systemic change in the policy making of overseas investment. The last two decades especially have been one of facilitation and encouragement for the Indian firms. The role of government as a facilitator is significant compared to the previous four decades of its rule making and handling of Indian economy. Indian firms to invest abroad has been a welcome step as well as given a big boost to the outward FDI flows.

Firms tend to benefit in certain ways. Market access for exports, possibilities of realizing economy of scale through horizontal or vertical integration, upgrading, assimilating and developing technology, sourcing resources or raw materials, enhancing capacity to deliver services or acquiring international brand names are the major attractions. Similarly, firms tend to lose their business in some ways. Increased costs, lower profits, high maintenance, higher debt and overstretched finances can cause operational problems and delay delivery. Investments or acquisitions in industrialized countries may raise unit costs and hence lower profit on account of the much higher wages and the much larger overheads.

The impact of overseas investment could have serious implications on trade flows and employment. Marketing seeking outward FDI will promote exports and resource seeking will promote imports. The impact of efficiency seeking investment will not be possible to predict because it will all depend on how the firms are proposing to scale up their production through innovation, technology, inputs and level of managerial skills in the host countries. Impact of outward investment and acquisition on domestic investment may be positive provided it crowds-in domestic investment and negative if it crowds-out the domestic investment. Efficiency seeking investment if wishes to utilize labour advantage abroad, then it will have a debilitating effect on domestic front. If firms are able to increase the output, it will have a positive effect on domestic employment environment.

Sectors or industries may benefit from this engagement. International investments or acquisitions should enhance industrial competitiveness through upgrading the process, upgrading the product, moving up the value chain or moving on to a new value chain and such benefits may trickle down to the local firms or industry depending upon the linkages they have.[11] In the absence of this backward and forward linkage, the firm may improve its business expansion outside but will lose its competitiveness and market at home.

Any assessment of developmental dimension of outward FDI always raises a key question, i.e., the trade-off between overseas investment and domestic investment. Faster growth of overseas investment in pro-reforms era from India reflects the policy and climate the government pursued towards domestic investment. It explains to a point that less attractive domestic environment becomes virtually a catalyst for external investment. This should not make the policy makers think in terms of adopting a restrictive regime for outward FDI, rather should make a case for infusing reforms to improve domestic investment environment.

Finally, it is sometimes argued that whether all this investment and acquisition drive abroad is based on sound economic considerations. Some doubt that Indian business houses have embarked on such a route to race against each other or to outdo one another (*The Economist* 2009: 61). However, Alan Rosling, who was on the board of Tata Groupøs holding company during its rapid overseas expansion expressed in a reverse manner: ñthe Tataøs foreign acquisitions were not daring, they were in part defensive.ö Recent acquisition of Jaguar and Land Rover (JLR) by Tata has raised some doubt in the international business community on the ability of an Indian firm to manage Western brands. The trouble in running an auto behemoth of JLR in nature has indicated about the wisdom of fast growing companies like Tata from emerging markets such as India

[11] A detailed analysis of establishing such competitiveness through upgrading, see Kaplinsky & Morris (2001).

acquiring its developed world counterparts, namely JLR (*Financial Times* 2009: 6). In an interview, Ratan Tata, the Groupøs Chairman admitted that the company bought Jaguar and Land Rover (JLR) at an ñinopportune timeò (*The Economist* 2009: 61).

VIII Conclusive Remarks

India has a long history of overseas investment. Since 1950s Indian companies have been venturing out to widen its business horizon and effectively participate in international business. Market-seeking, resource-seeking and asset-seeking have been the main motives of this vibrant community. First four decades did not produce any dramatic results; total outflows remained quite meager. Restrictive regime during 1950s through early 1990s was a conscious decision of the Government to make the economy self-sufficient and establish the assertion of Indian business houses in a mixed economy. There has been a surge in outflows from 2003-2004 onwards following significant dismantling of foreign exchange restrictions on capital transfers for acquisition of foreign ventures by Indian firms. Indiaøs share in total outward FDI of developing countries increased from below 0.5 percent in the early 1990s to nearly 6 percent during 2006ï 2007. Some of the Indian firms have attained global recognition and are now among the strongest EMNEs. Current success of Indian emerging multinationals is also due to the managerial and technical skills that they have imbibed over a period of time which are embedded in the past.

The overseas investment experience of Indian firms has revealed that they have operated largely in the developing countries possessing technological and other capabilities equal or lower than at home. The recent spurt in expansion of OFDI from India was in sharp contrast of its own earlier OFDI experience as well as from other developing countries.

Some argue that Indian MNEs have grown stronger now because they remained under the shadow of an import-substitution policy for long. That a protected domestic market provides a favourable climate for successful expansion of local firms is a logical conclusion. In fact, industrialization process of India happened much before it attained independence. If policy makers then would have implemented the reform programmes and provided a conducive atmosphere with private sector as the key driver of the economy as envisaged in Bombay Plan, Indiaøs evolution of economy and corporate business would have been different; in what way is a matter of only speculation.

Though expansion of Indian business houses in global arena is noticeable, yet they are at the formative stage of their global operations. Many of them are still country specific, instead firm specific; although there are some isolated cases where some companies are developing their firm specific advantages. Finally, in an effort to go global and internationalize Indian economy, upbeat Indian corporate empire is constantly scouting for overseas operations and aims to garner a larger share of international business. While engaging in this kind of activity, it is pertinent to ask in what way Indian economy will benefit from this exercise. How national gain can be ensured and promoted. This dimension needs to be carefully analyzed.

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